Rev (Exp) (1920) Departme

SERIES.

G.O. No. 2195

DATED

Co-operative Societies [Despatch Abstract.]

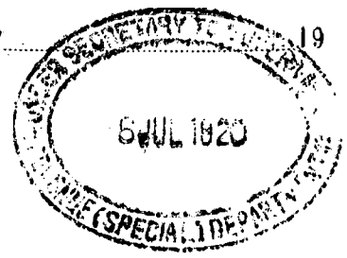
Transmd - South Kanara Garden Planters' Wholesale Society - Papers recorded

C. 29—3,624—15-2-19.

No 1045-III
8-7-20

DEPARTMENT.

Received ..... 19 *Registered* 19



Subject.

Submitting a report on the fraud committed by Mr.Shama Sastri, a managing director in the Mangalore branch of the South Canara Garden Planters wholesale co-operative society.

ENCLOSURES.
No. .....
.....
Spare copies .....

No. R.Glc.2985/20

Station Egmore.Madras. , *Dated the* 4th July 1920.

From (Name) M.R.Ry.Rao Bahadur A.Vedachala Ayyar Avl.,B.A
(Designation) Ag.Registrar of Co-operative Societi
Madras.

To The Secretary to the Government of Madras
Revenue (Special) Department,
"Stone House Hill", Ootacamund.

Sir,

I have the honour to report for the information of Government the case of a huge fraud committed by a Managing Director in the Mangalore branch of the South Canara Garden Planters Wholesale Co-operative Society. This society was started with its head office at Vittal about 30 miles from Mangalore and with a branch at Mangalore and other places. The main object of the society was to receive arecanut and other garden produce from members and sell the same to the best

best advantage of such members and also to make advances to members on the security of produce supplied ~~to~~ by them. The branch office at Mangalore had the following establishment:--

(1) Shama Sastri--Managing Director, eligible for a certain amount of honorarium;

(2)Mahabalaeshwara Bhatta,Head Clerk,brother-in-law of the Managing Director on Rs.10/- a month

(3)Kolke Venkataramana Mayya,the 2nd clerk on Rs.10/- a month and

(4)Toledar Shesha Chetty, the weighing man entitled to a commission.

2. The Managing Director,Shama Sastri got the sanction of the Directors at Vittal for renting a building at an annual rental of Rs.1,300. He got lease of a ware house from one Vasudeva Pal on the 8th October 1919 for 3 years at an annual rental of Rs.1,275 and he advanced Rs.600 to the owner of the ware house but debited in the accounts of the wholesale society on the 8th October 1919 a sum of Rs.1,300 as having been paid to the warehouse man. The amount was taken by Shama Sastri for being paid to the ware house man. He paid only Rs.600 and misappropriated the balance of Rs.700. He wrote to the Directors at Vittal that he has paid Rs.1300 to the ware house man and this is a clear falsehood. He has thus committed an offence under section 405 Indian Penal Code (Criminal Breach of Trust) as the Managing Director and the agent of the society, he may be dealt with under section 409. I.P.C.

p. 5480/Unreptd. J. Recs Vol E

p. 369

3. Mahabaleshwara Bhatta the head clerk and the brother-in-law of the managing director is a man of no property and he appears to have been declared an insolvent some years back. This man and one Sesha Chetty, the person employed in the society for the purpose of weighing the produce opened a new trade in the ware house and posed himself as an independent trader. Practically Shama Sastri under these names began private trade using the produce collected in the society for the purpose of his trade.

On the 9th of March 1920, Shama Sastri wanted to be relieved of his work as he had an urgent call from Bombay. Vittal Office sent one Thimmana Bhatta to relieve him. Shama Sastri went to Bombay on the 11th of March and declined to take charge of the branch at Mangalore on his return. He subsequently filed an insolvent petition in the court. The disinclination on the part of Shama Sastri to take charge from Thimmana Bhatta roused the suspicion of the people and the stock was examined with the assistance of the Government Inspector. The result was that there was a deficiency in stock of various articles whose estimated value is about Rs.23,000. Shama Sastri has been entering in the accounts fictitious entries relating to the sale of arecanut. It appears that in February last he shipped 250 bags of goods out of society's stock to Bombay. This does not find a place in the accounts. Similarly he sent 75 bags out of the society's stock of goods. Anyway he made false debits in the accounts of the society and received large amounts as advance. By a series of such fraudulent transactions, the deficit in the society is at present

fixed

fixed at Rs.23,000. The society which at first was unwilling to prosecute the man has now decided to prosecute him not only in connection with the misappropriation as regards house rent but also in regard to the fraudulent entries made in the accounts for the purpose of covering the misappropriation of about Rs.23,000.

I enclose for the information of Government a copy of the complaints which have been filed in respect of these two items before the police. The society is arranging to engage pleader for conducting the prosecution in this case. The question of fixing the responsibility of the loss on the managing director or on the other directors has to be settled after the prosecution is over.

I have the honour to be.

Sir,

Your most obedient servant,

Registrar.

5

In the court of the Sub Divisional Magistrate,Mangalore.

C.C.No. 1920

Nethrakere Shankernarana Bhatta son of Thimmanna Bhatta,residing at Vittal,Uppinangady Taluk. | Complainant.

Versus

Chakrakodi Shama Sastri,son of Ishwara Shastri,residing in Mangalore Town. | Accused.

Complaint under section 409 I.P.C.

The above-named complainant begs to state as follows:

1. That he is the Secretary of the South Kanara Garden Planters' Wholesale Co-operative Society,which has its headquarters at Vittal and branch offices at Mangalore and other places.

2. That the accused was a Director of the society and as such was put in sole charge of the Society's affairs in its Mangalore Branch.

3. That towards the end of September 1919, when the accused was such Managing Director, he represented to the Head Office at Vittal that a more commodious warehouse should be engaged for the Society in order that the business may be properly transacted. He also represented that an amount will have to be advanced as rent, before the warehouse could be secured. And on 7-10-19, out of the cash balance in his hand he withdrew Rs.1,300 and debited it as having been paid by him as warehouse rent. And on 12-10-19 he also wrote to the Head Office at Vittal that he had engaged the warehouse belonging to Vasudeva Pai for one year by paying the annual rent of Rs.1,300 in advance.

4. But, as a matter of fact, the accused got a lease of the warehouse on 8-10-19 fixing the annual rent at Rs.1,275/- only and paid an advance of Rs.600/- only.

5. Thus the accused who, as the Managing Dierector of the Society's branch at Managalore, had been entrusted with the funds of the society, by falsely representing that

that an advance rent of Rs.1,300/ had been paid to Vasudeva pal, the owner of the warehouse, hired for the society, actually paid only Rs.600/,has dishonestly misappropriated Rs.700/-which he has failed to account to the Society.

6. The accused has thereby committed an offence punishable under section 409 I.P.C.

7. This offence of the accused came to light only in April last, when matters were being investigated concerning the management of the society by the accused. A separate complaint will be preferred against the accused before the Police for other offences that - he may be found to have committed.

8. As the Accounts and the stock had to be checked, proceedings had to be passed at the meetings of the members and directors and the instructions of the Registrar of Cooperative societies, had to be awaited, there was this delay in filing this complaint. This complainant was authorised to present this complaint by the proceedings of the directors of the society dated 12-6-20 and by the order of the Registrar of Co-operative societies.Madras dated _____

9. Prays,therefore, that this court may be pleased to order the arrest of the accused, and after the examination of the following witnesses, the accused may be punished according to law for the offence committed by him.

Witnesses: 1.Thimmanna Bhatta.son of ~~Mahu~~ Mutha Batta, residing in Kargallu,Kula village,Uppinangady Taluk. 2.Mahabaleshwara Bhatta,son of Talekala Ganapathi Bhatta,residing in Mangalore Town.

3.Vasudeva Pal son of Appu Pal,residing in Mangalore to produce the lease dated 8-10-19 executed by the accused in favour of himself and others and to give evidence. 4.Kolke Venkataramana Mayya, son of Rama Mayya,residing at Kolke,MangaloreTaluk.

money belonging to the society fro time to time.

5. It is believed that during the period commencing from 1st October 1919 to 11th March 1920, the 1st accused, who was the Managing Director and as such an agent of the society, has dishonestly misappropriated and converted to his own use the amounts and the property of the society, which were entrusted to his charge, to the extent of about Rs.23,000/- and has committed an offence punishable under sec. 409 I.P.C.

6. The 2nd and 3rd accused being associates of the 1st accused, have aided and abetted him in committing the above offence and have committed offences punishable under sections 109 and 409 I.P.C.

7. As the accounts and the stock had to be checked, proceedings to be passed at the meeting of the members and directors and the instructions of the Registrar of Co-operative Societies had to be awaited, there was this delay in filing this complaint. This complainant was authorised to present this complaint by the proceedings of the directors of the society dated 12.6.20 and by the order of the Registrar of Co-operative societies, dated

8. It is therefore necessary. in the interest of justice, that the private account books of the 1st accused, the account books kept by Mhabaleshwara Bhatta and Sesha Chetty the account books of Mariappa and his partner Kaipadavu Narayna Bhatta be searched and seized and the accused also arrested. It is also praved that after examining the following witnesses and others that m be found necessary to examine during investigation into this case, the accused may be dealt with according to law.

1.Thimmanna Bhatta, son of Muthu Bhatta, residing in Kargallu, Kula village, Uppinangady Taluk.
2.C.Kannan Nair, Chief Inspector of Co-operative societies, South Kanara, Mangalore.
3.S.Pengal, Inspector of Co-operative societies, Mangalore Circle.
4.K.Ramachandra, Reserve Inspector of Co-operative Societies, Mangalore

5.Kolake

5.Kolake Venkataramana Mayya,son of Rama Mayya,residing in Kolake,Sajip Muda village,Mangalore Taluk.

6.Rama Rao,son of Gopalakrishnaya,Dongerkerry Street, Mangalore.
7.Toledar Ganapathi Shetty,son of Bhagavantha Savanth, residing in Bolur,Mangalore.
8.Sowcar P.Kuverje Ummershi Shett,No.3 Kark Bazaar, Bombay.

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10 Reams—8-4-18.

(Special)
REVENUE DEPARTMENT.

OM No 1045-III/20-1 dy 13-7-1920

With reference to his letter R.Gl.C.No. 2985/20, dated 4-7-1920, the Registrar of Co-op Societies is requested to report when the South Kanara Garden Planters' Co-operative Society was last inspected by any Supervisor or Inspector or by the Asst. Regr. ~~before the fraud came to light~~ prior to the discovery of the frauds

Ferd
18.7.20

To the Regr. of Co-op. Societies.

Dy Sec
10.7.20

RS
12.7.20

DEPUTY SECRETARY
13 JUL 1920

C.F. 99—9,886—22-1-16

Co-operative **DEPARTMENT**

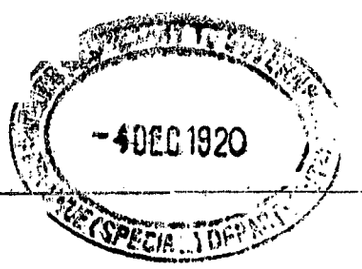
Rpt & Cys 1045-III

4-12-20

Received ..... 191 *Registered* 191

Subject

Reporting on the fraud committed in the South Kanara Garden Planters Wholesale Society by the Managing Director and the steps taken to prevent the recurrence of such frauds.



ENCLOSURES.
No. .....
.....
Spare copies .....

R.Gl.CNo. 2985/20.

Station Egmore, Madras, *Dated the* 1st December 1920.

From (Name) F. R. Hemingway Esq., I. C. S.,
(Designation) Registrar of Co-operative Societies, M a d r a s,

To The Secretary to the Government of Madras,
Revenue (Special) Department.
Fort St. George,
M a d r a s.

Sir,

With reference to Government Memorandum No. 1045--111/20-1, dated the 13th July 1920 and No. 1045/111/20-2. dated the 15th July 1920, I have the honor to report as follows:-

The main fraud committed by the late Managing Director of the society consisted in his making advances against goods which had not been supplied and going off with the money. He was in control of both the cash and

and the goods departments of the society, his work was very inadequately supervised by the other directors and he had a free hand.

2. Stock, as was usual with our societies, was taken only once a year. The stock was verified in August 1919 by an Inspector and found correct. The society's accounts were audited at the same time. The Inspector complained of delay and untidiness in writing up the branch accounts but pronounced the condition of the society to be good. I visited, but did not make a detailed inspection of the society, two or three times in 1919, my last visit being in December. My Personal Assistant (Dr. John Matthai) inspected the society in detail in March 1919 and wrote a long note on the subject. His report does not say anything about the methods of -- accounting which he seems to have been satisfied with. He speaks generally in eulogistic terms of the work of the society, but gives some warnings. This note was communicated to the Assistant Registrar and ~~which~~ was, with certain omissions, ~~was~~ also communicated to the Secretary of the central bank which was financing the society with a request to show it to the secretary of the union to which the society was affiliated(M.R.Ry., M. Shiva Rao).

3. It was apparent all along, and this was strongly brought out in Dr. Matthai's note that it was a mistake to have the Managing Director so entirely free of control. And on several occasions in 1919, I pressed this informally on the gentlemen interested in the society and especially on Mr. Shiva Rao who is not only the most prominent non-official worker in the Presidency but was also the Secretary of the Supervising Union and practically the organiser of the society which he was constantly supervising. And this was clearly indicated in the note

sent

sent to the central bank. The difficulty was that the Managing Director was an able and efficient man--indeed the only man connected with the society who was capable of conducting the business of selling the produce. And I must confess that the danger chiefly present to my mind and to Dr. Matthai's mind was not that he would cheat in connection with the stock but that he would cheat in connection with the prices. And I also felt and still feel how difficult it is to get business of that sort done by several men acting together. I kn~ the English and Irish practice to be to give very great latitude to the Manager or Agent of a society; and, as we were feeling our way in a new kind of business, I was not prepared to lay down for the society and those who advised it precisely how they should do their business. I felt, moreover, a disinclination to say anything to show in a public manner any distrust of the Managing Director who on the face of it was a capable and public spirited worker.

4. As a result, presumably of these warnings the Directors resolved on December 19th to depute another director to assist the Managing Director at Mangalore. This move was not given effect to owing to the illness of this director and the "resentment" of the Managing Director. By the middle of March it was too late.

5. I probably made a mistake in not addressing official warnings to the society itself. My warnings were chiefly given to my Assistant Registrar and Mr. M. Shiva Rao. The latter was the organiser of the society and the Secretary of the union and was further officially interested in the society as being the Vice-president of the Central Bank which financed the society.

But

But it would have been wiser to have addressed official warning to the society itself. Actually, I doubt, if this would have made any difference; but it would have been formally more correct.

6. As regards precautions for the future:-

1. M.R.Ry., Rao Bahadur A. Vedachala Ayyar, the Ag. Registrar has directed that stock should be taken in all trading societies once a quarter;

2. A conference was held by me and the Assistant Registrar with the secretary and another director of the society last month at which Mr. Shiva Rao and another director of his bank were present. The local agent of the Bank of Madras also was present and gave us his advice.

7. It was agredd (a) that advances against produce must be given;

(b) that the stock and the cash should be in separate hands and these of a higher class than the men employed before and that these men must give security;

(c) that a Managing Director or Manager must be in charge;

(d) that frequent check of the stock was necessary by some other director or directors preferably once a week though these inspections need not be very detailed;

(e) that the financing bank should make similar checks;

(f) that the cash and store accounts should be tallied every day and

(g) that the Managing Director or Manager should give large security or take out a

policy

Rev (Special) Deptt.

Report on a fraud committed in the South Kanara Garden Planters Khoboseb Cooperative Bank,

C No. 10485 In/20.

To Under Secy.

Please see Regrs letter at pp 1-4 CF. The case referred to therein is probably the one referred to in the newspaper cutting in the linked file, though it cannot be asserted that it is. The report called for in the DO at p. 2 in the linked file may, it is submitted therefore be awaited.

Cf Regrs DO dt 4/5/20 fo. 1485 (V) 12-8-20

*Disposed of - to this

2. As regard the fraud reported in this case, it is submitted that no action seems called for on the part of Govt. and the report appears to have been sent only for information.

3. It will be seen from para 2 of Regrs letter at p. 2 CF that the fraud was commenced on 8.10.1919 and was not detected until about 15-3-1920. It is not known whether the accounts of the society were inspected during this period by Submissn or inspector or by the Asst Registrar. It is submitted that the Regr may be asked to report on the point. From the extent of fraud reported the society appears to be a big concern and should have been inspected

13-7-20

To Under Secy

Please see Secretary's query on the previous page.

A Subd. that no special rules have been framed to govern trading associations.

B These associations are governed by the general rules framed under sec 43 of the Co-operative Societies Act and by the bylaws of the Societies concerned.

LaR
13.7.20.
RR
13.7.20

Sec'y
for
14.7.20

Probably a copy when the rules and bye-laws of the Society but to ask for a report on Jamal's application for registration of the bye-laws with remarks on whether any further proceedings can be taken.

This may be done after a copy of the registered bye-laws of the Regd. Society

14.7

To Under Secy

A draft pm is subd for appl.

LaR RR
14.7.20 15.7.20

for
15.7.20

pp 13-17 CF

From the Registrar of Cooperative Societies R.Pte
No. 2985/20 dated 1-12-1920.

To under Secy.

Please see ors to the Regr at pp 11-12 CF and the Registrar's reply at pp 13-17 CF

2. It will be seen from the Registrar's report that it was recognised for some time that the Managing Director had been left entirely out of control. This was intimated to the Asst Regr among others and it is not stated what action they appear took in the matter. It is not even reported whether he inspected the Society at all for orders whether the ~~Registrar~~ matter need be pursued further

3. The safeguards created in para 4 of the letter seem ample.

p. 16 CF

These are not necessary since although the rules none of the provisions whereof, in general, have been violated.

4. The Registrar has not submitted copy of the rules of the Society as directed in Dm of 15-7-20 at page 12 CF a draft telephone message has been sent for it ~~by post~~

5. The papers may perhaps be recorded.

P to

I.A.R.
7/12
PAP
9/12/20

Between 8-10-19 the assessment date from which the fraud might be supposed to commence and 15-3-20 on which it was detected the Society had an ex-
-hibition of stock and under-by an Inspr who compliance with the instructions of accounts. the Repr himself visited the Society two or three times in 1918 but did not make a detailed examination. The P-A to Repr Dr Malthai inspected the Society in March 19 and ~~wrote a long note~~ is said to have written a long note. It was sent to A R and also to the Secy of the Fermoy bank. These facts will show that so far as substantial instructions are concerned there were not too few. but-they were not duly and certain were not accompanied by comparison of stock on hand and of cash-balance.

Dr Malthai's report brought out the defect that the managing director was left to audit for himself. The Repr also pressed on ... occasion this defect ... the gentleman interested in the Society. As a result another director was deputed to assist the working Director. but this was not given effect to

Vide. pag 16 of CF

The remedial measures proposed to prevent a recurrence of such fraud are certainly adequate and if scrupulously observed would prove very effectual. The Stock and cash should be in separate hands and must be taken every — — — at least — though the Stock must be checked once a week by some other Director or Director. Security should be taken by all dealing with the stock or even the Rep[r] may be requested to embody these proposals

I would add that as directed by Rep[r] Vedachala Iyer the Stores Shd be inspected by the departmental Officers once every Quarter year, and that shd be detailed including one item — to — Item Verification of Stock. This would be a good check for — preferable to the — Storekeeper either — season of the Directors. The Rep[r] may be requested to issue a departmental circular on the Subject

No further action as regards the fraud seems to be — needed. The case may be closed

Secy

Kirk
10-12-20

Read both the letters in connection with this

Dis Register

11. 12 20